

Legislative Audit Division

State of Montana



Report to the Legislature

November 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Office of the Commissioner of Political Practices

This report contains two recommendations directed to the Office of the Commissioner of Political Practices. Recommendations addressed in this report are related to:

- ▶ Accounting for Multi-Year Revenues
- ▶ Recording of an Intangible Asset

Direct comments/inquiries to:
Legislative Audit Division
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

November 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Commissioner of Political Practices for the two fiscal years ended June 30, 2006. Our report contains two recommendations related to complying with state accounting policy. The office's written response to the audit recommendations is included in the back of the report on page B-3.

We thank the Commissioner and his staff for their assistance and cooperation during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Office of the Commissioner of Political Practices

Members of the audit staff involved in this audit were
Jeane Carstensen-Garrett and Delsi Plummer.

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Appointed and Administrative Officials

**Office of the
Commissioner of
Political Practices**

Term

Gordon Higgins, Commissioner

January 1, 2005-August 4, 2006

Dennis Unsworth, Commissioner

September 5, 2006-December 31, 2010

**Office Administrative
Official**

Dulcy L. Hubbert, Program Supervisor

For additional information contact:

Dennis Unsworth, Commissioner of Political Practices

PO Box 202401

Helena MT 59620-2401

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**Office of the
Commissioner of Political
Practices**

This audit report is the result of our financial-compliance audit of the Office of the Commissioner of Political Practices (office) for the two fiscal years ended June 30, 2006. This report contains two recommendations directed to the office related to accounting for multi-year license and permit revenues and the recording of an intangible asset.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the information presented in the financial schedules, as well as the supporting data on the state's accounting system.

The listing below serves as a means of summarizing the recommendations contained in the report, the office's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend that the office recognize multi-year lobbying license revenues as required by state accounting policy..... 4

Office Response: Concur. See page B-3.

Recommendation #2

We recommend the office record the new database on the accounting records as required by state accounting policy. 4

Office Response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Office of the Commissioner of Political Practices (office) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

- ▶ Determine if the office complied with applicable state laws and regulations.
- ▶ Obtain an understanding of the office's control systems and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
- ▶ Determine whether the office's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2006.

This report contains two recommendations to the office. Other areas of concern deemed to not have a significant effect on the successful operations of the office are not included in this report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The office was created by the 1975 Legislature. The governor appoints the commissioner to a six-year term, subject to confirmation by the senate. A four-member selection committee, comprised of the speaker of the house, the president of the senate, and the minority floor leaders of both houses of the legislature, submits a list of two to five names of individuals to the governor for consideration. The commissioner can only serve one term and is precluded from being a candidate for public office for a period of five years after leaving the position. If for any reason a vacancy occurs in the position of commissioner, a successor shall be appointed within 30 days to serve out the unexpired term. An individual who is selected to serve out the unexpired term of a preceding commissioner, and who has served less than three years, may be reappointed for a six-year term.

Introduction

The primary duties of the commissioner include:

- ▶ Facilitating disclosure of financial contributions to and expenditures of candidates and political committees.
- ▶ Facilitating registration of lobbyists and monitoring lobbyist's expenditures by principals.
- ▶ Monitoring candidates and political committees, lobbyists, and principals for compliance with Montana campaign finance and practices laws and Montana lobbying laws.
- ▶ Monitoring and enforcing Montana's Code of Ethics for public officers, public employees, and legislators.
- ▶ Investigating legitimate complaints of alleged violations of campaign finance and practices laws, lobbying laws, and ethics laws.

The office was authorized for five full-time employees for the two fiscal years ended June 30, 2006.

Prior Audit Recommendations

Our previous audit report covering the two fiscal years ended June 30, 2004, did not contain any recommendations to the office.

Findings and Recommendations

Accounting for Multi-Year Licenses and Permits Revenues

The office is not recording lobbying license revenue according to state accounting policy.

In order to lobby in the state of Montana, lobbyists are required to purchase a lobbying license if they are paid more than a threshold established in law. The cost of a lobbying license is \$150. State law specifies that \$100 of each lobbying license fee must be deposited into the State Special Revenue Fund and the remaining \$50 must be deposited into the General Fund.

State accounting policy defines a multi-year license or permit as any license or permit issued for a period of greater than one year. Most lobbying licenses are purchased prior to, or during, the regular legislative session which occurs in odd-numbered years. The licenses expire on December 31 of every even-numbered year, which establishes the majority of licenses as multi-year licenses given that they are valid for more than one year. State accounting policy provides that for multi-year licenses, the exchange of goods and services is presumed to occur over the time period for which the license or permit is valid, and the revenue should generally be considered to have been earned equally over that same time period.

Currently, the office records and recognizes 100 percent of the revenue for each lobbying license as earned in the year that it is purchased, rather than recognizing some of it in the subsequent year, as required by state policy. As a result, in fiscal year 2004-05 the revenues in the General Fund and State Special Revenue Fund were overstated by approximately \$8,410 and \$17,071, respectively; and in fiscal year 2005-06, the revenues in the General Fund and State Special Revenue Fund were understated by approximately \$12,625 and \$25,250, respectively.

An update to state accounting policy was issued in April 2006 to address the topic of multi-year licenses and it was retroactive to July 1, 2004. Office personnel stated they were unaware of the update, although as a state agency, they are responsible for staying current and complying with state accounting policies.

Findings and Recommendations

Recommendation #1

We recommend that the office recognize multi-year lobbying license revenues as required by state accounting policy.

Recording of an Intangible Asset

Intangible asset is not recorded on office's accounting records.

In December 2004, the office, along with the Office of the Secretary of the State (SOS), established a written contract with a software company to convert the database used by the office to an Oracle-based system. The total cost of the database conversion project was \$51,200. State accounting policy requires that agencies record all assets meeting the capitalization threshold of \$5,000 on the accounting records. The office was unaware of the database's classification as an asset and thus did not record the asset on the accounting records as required by state accounting policy. As a result, intangible assets are understated by \$51,200 on the state's accounting records.

Since the database conversion was an unusual transaction for the office, the office could have consulted with the Department of Administration, which is responsible for state accounting policy.

Recommendation #2

We recommend the office record the new database on the accounting records as required by state accounting policy.

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION



Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Commissioner of Political Practices for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

September 20, 2006

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund
FUND BALANCE: July 1, 2005	\$ (20,947)	\$ 0
ADDITIONS		
Budgeted Revenues & Transfers-In	10,819	1,300
Direct Entries to Fund Balance	289,893	(1,300)
Total Additions	300,712	0
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	304,795	
NonBudgeted Expenditures & Transfers-Out	(50)	
Total Reductions	304,745	
FUND BALANCE: June 30, 2006	\$ (24,980)	\$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FUND BALANCE: July 1, 2004	General Fund	State Special Revenue Fund
	\$ (23,922)	\$ 0
ADDITIONS		
Budgeted Revenues & Transfers-In	55,867	54,100
NonBudgeted Revenues & Transfers-In	41	
Direct Entries to Fund Balance	257,722	(54,100)
Total Additions	313,630	0
REDUCTIONS		
Budgeted Expenditures & Transfers-Out	310,655	
Total Reductions	310,655	
FUND BALANCE: June 30, 2005	\$ (20,947)	\$ 0

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 650	\$ 1,300	\$ 1,950
Charges for Services	4,119		4,119
Fines, Forfeits and Settlements	6,050		6,050
Total Revenues & Transfers-In	10,819	1,300	12,119
Less: NonBudgeted Revenues & Transfers-In			
Prior Year Revenues & Transfers-In Adjustments	10,819	1,300	12,119
Actual Budgeted Revenues & Transfers-In	22,169	700	22,869
Estimated Revenues & Transfers-In	<u>\$ (11,350)</u>	<u>\$ 600</u>	<u>\$ (10,750)</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated			
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ 283	\$ 600	\$ 883
Taxes	(4)		(4)
Charges for Services	229		229
Fines, Forfeits and Settlements	(11,858)		(11,858)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (11,350)</u>	<u>\$ 600</u>	<u>\$ (10,750)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Licenses and Permits	\$ 27,050	\$ 54,100	\$ 81,150
Charges for Services	7,017		7,017
Fines, Forfeits and Settlements	21,800		21,800
Miscellaneous	41		41
Total Revenues & Transfers-In	55,908	54,100	110,008
Less: Nonbudgeted Revenues & Transfers-In	41		41
Actual Budgeted Revenues & Transfers-In	55,867	54,100	109,967
Estimated Revenues & Transfers-In	23,050	40,600	63,650
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 32,817	\$ 13,500	\$ 46,317
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Licenses and Permits	\$ 6,750	\$ 13,500	\$ 20,250
Charges for Services	4,517		4,517
Fines, Forfeits and Settlements	21,550		21,550
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 32,817	\$ 13,500	\$ 46,317

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Administration</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	
Personal Services	
Salaries	\$ 148,615
Employee Benefits	46,871
Total	<u>195,486</u>
Operating Expenses	
Other Services	76,117
Supplies & Materials	10,440
Communications	5,959
Travel	2,629
Rent	11,081
Repair & Maintenance	4
Other Expenses	<u>3,029</u>
Total	<u>109,259</u>
Total Expenditures & Transfers-Out	\$ <u><u>304,745</u></u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ <u>304,745</u>
Total Expenditures & Transfers-Out	304,745
Less: Nonbudgeted Expenditures & Transfers-Out	<u>(50)</u>
Actual Budgeted Expenditures & Transfers-Out	304,795
Budget Authority	369,748
Unspent Budget Authority	\$ <u><u>64,953</u></u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ <u>64,953</u>
Unspent Budget Authority	\$ <u><u>64,953</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF POLITICAL PRACTICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Administration</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	
Personal Services	
Salaries	\$ 148,084
Employee Benefits	43,296
Total	<u>191,380</u>
Operating Expenses	
Other Services	85,808
Supplies & Materials	16,645
Communications	6,094
Rent	8,712
Repair & Maintenance	610
Other Expenses	1,406
Total	<u>119,275</u>
Total Expenditures & Transfers-Out	<u>\$ 310,655</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ <u>310,655</u>
Total Expenditures & Transfers-Out	310,655
Less: Nonbudgeted Expenditures & Transfers-Out	
Prior Year Expenditures & Transfers-Out Adjustments	
Actual Budgeted Expenditures & Transfers-Out	<u>310,655</u>
Budget Authority	333,835
Unspent Budget Authority	<u>\$ 23,180</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 23,180
Unspent Budget Authority	<u>\$ 23,180</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of the Commissioner of Political Practices

Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General and State Special Revenue). In applying the modified accrual basis, the office records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

General Fund – to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. The office's State Special Revenue Fund

Notes to the Financial Schedules

includes \$100 from each registered lobbyist and is used by the Legislative Services Division for state government broadcasting services.

2. General Fund Balance (Negative Balances)

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2005 and June 30, 2006.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The General Fund entry occurred because the office spends more than what the office receives in revenues. In the State Special Revenue Fund, the license and permits revenues collected are spent by the Legislative Services Division.

4. License and Permits

Currently, the office recognizes lobbying license revenues when they are received. Because the majority of lobbying licenses are purchased at the beginning of a legislative session, license and permits revenues are significantly larger in fiscal year 2004-05 than in 2005-06.

5. Revenue Estimates

Prior to fiscal year 2005-06, the office would only estimate \$250 in Fines, Forfeits, and Settlements revenues because of the volatile nature of these revenues. This can lead to large differences between the revenue estimate and revenues collected. In fiscal year 2005-06, the office increased the estimate for these revenues because office officials anticipated an increase in fines due to changes in law enacted through chapter 31, Laws of 2003.

Office Response

COMMISSIONER OF
POLITICAL PRACTICES

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LEGISLATIVE AUDIT DIV.



STATE OF MONTANA

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November 27, 2006

Scott A. Seacat
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Subject: CPP Financial-Compliance Audit for two fiscal years ended June 30, 2006

Mr. Seacat, this is in response to the recently-completed audit and your recommendations.

We agree with both recommendations and have taken steps to implement each of them. As regards accounting for multi-year revenues, we've been informed of the necessary steps and will adjust our procedures with that in mind. In regard to the newly converted and updated database, it will be properly accounted for as recommended and required by state accounting policy. Both these changes will be taken care of within the next 30 days.

Your staff has been helpful and professional and we appreciate their guidance and assistance. Thank you.

A handwritten signature in black ink, appearing to read "Dennis Unsworth".

Dennis Unsworth
Commissioner of Political Practices

